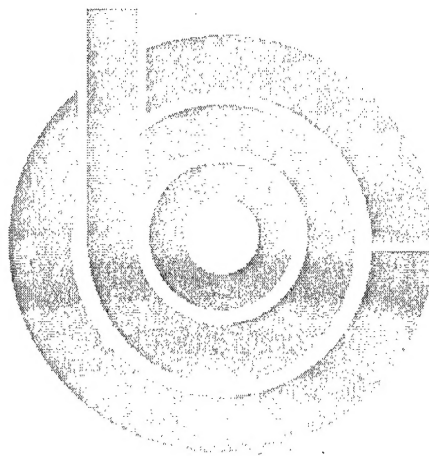


**AN ANALYSIS OF THE PRESIDENT'S
MID-SESSION REVIEW
OF THE BUDGET FOR FISCAL YEAR 2001**

**Corrected
September 6, 2000**



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**Prepared by the
Congressional Budget Office
at the request of the
House and Senate Committees on the Budget**

20020313 082

AQI 02-06-0985

ERRATA

This document supersedes the previous version of this report, dated July 28, 2000, which incorrectly estimated surpluses in Medicare's Hospital Insurance trust fund under the proposals in the *Mid-Session Review*. The corrections included here produce slightly lower on-budget surpluses and slightly higher off-budget surpluses but have no effect on total surpluses.

The President is required by law to submit a budget by early February of each year, as well as a supplemental update before July 16. The update, in general, has contained revised estimates of the budget surplus, receipts, outlays, and other summary information, with only minor changes, if any, in legislative proposals. However, both last year and this year, the *Mid-Session Review* has also contained significant new policy proposals. Therefore, as requested by the House and Senate Committees on the Budget, the Congressional Budget Office (CBO) has analyzed the Administration's *Mid-Session Review* of the fiscal year 2001 budget.

CBO estimates that the policies reflected in the *Mid-Session Review* would result in cumulative total budget surpluses of \$1.4 trillion over the 2001-2005 period and \$3.2 trillion over the 2001-2010 period (see Tables 1 and 2). Those estimates exceed the corresponding projections by the Administration by \$0.2 trillion and \$0.3 trillion, respectively, mostly because CBO projects slightly higher revenues over those periods. On-budget surpluses over the five-year and 10-year periods would reach \$159 billion and \$349 billion, respectively. (Revenues and spending for Social Security and the Postal Service are currently excluded from the on-budget totals; the Administration would do the same for Medicare's Hospital Insurance program.)

For the most part, the policies reported in the *Mid-Session Review* are the same as those proposed in the Administration's budget that was released in February.¹ However, some new policies have been added—mostly in the health area. Those new policies include:

- Expanding the proposed prescription drug benefit to include catastrophic coverage and starting the benefit in 2002 rather than 2003,
- Eliminating provisions in the February budget that would have reduced Medicare's payment rates and increasing other payment rates,
- Transferring amounts from the general fund of the Treasury to Medicare's Hospital Insurance (HI) trust fund and reclassifying the fund's receipts and outlays as off-budget,
- Boosting spending on discretionary programs, and
- Allocating \$500 billion over the 2001-2010 period for unspecified "national priorities."

1. See Congressional Budget Office, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2001* (April 2000), for a discussion of the proposals included in the February budget.

Besides examining changes in the Administration's policy proposals, this analysis incorporates CBO's updated baseline estimates, as reported in *The Budget and Economic Outlook: An Update* (July 2000). Compared with the estimates that CBO issued in April, when it analyzed the President's initial budget, the projections of the cumulative total surplus for 2001 through 2010 for the three baseline variations have risen by between \$1.4 trillion and \$1.5 trillion.² Most of that increase occurred on the revenue side of the budget, and those higher revenue estimates have added to the surplus under the President's proposals as well (see Table 3).

Revenues under the policies contained in the *Mid-Session Review* are projected to be \$93 billion higher in 2001 and nearly \$1.3 trillion higher from 2001 through 2010 than CBO previously estimated for the February budget (see Table 4). Overall, CBO's estimate of the cumulative total surplus in the *Mid-Session Review* is \$519 billion higher over the 2001-2010 period than that estimated for the February budget. That figure represents an increase in projected baseline surpluses totaling around \$1.5 trillion over the 10 years, offset by new policy proposals that would reduce the surplus by about \$1 trillion over the period.

THE PRESIDENT'S BUDGETARY POLICIES

The policy proposals contained in the Administration's *Mid-Session Review* would use the projected on-budget surpluses for various purposes: increased spending (mostly for health care), tax reductions, an unspecified "Reserve for America's Future," and debt reduction. The Administration proposes to devote to debt reduction those surpluses that are off-budget and to broaden the number of programs designated as such.

CBO estimates that the proposals in the *Mid-Session Review* would reduce the projected total surplus by \$302 billion between 2001 and 2005 and \$1.3 trillion between 2001 and 2010 relative to the inflated variation of the baseline (see Table 5). Relative to the freeze variation of the baseline, the corresponding reductions would be \$577 billion and \$2.5 trillion, respectively (see Table 6). Reductions under the capped baseline would be similar to those under the freeze baseline.

The net reduction in revenues under the *Mid-Session Review* would be negligible over the first five years and would total \$147 billion over 10 years. On the spending side of the budget, proposals for health care would have the largest effect.

2. As it did in previous reports this year, CBO has produced three variations of its baseline projections, which differ only in their treatment of discretionary spending (and the corresponding effect on net interest). The "inflated" variation assumes that budget authority for discretionary programs grows at the rate of inflation each year after 2000. The "freeze" variation assumes that discretionary budget authority each year equals the level enacted for 2000, plus the amount already enacted for 2001. The "capped" variation assumes that discretionary spending adheres to the statutory caps on such spending that are in effect through 2002 and increases at the rate of inflation thereafter.

Over 10 years, the Administration's health care initiatives would increase Medicare spending by \$310 billion (net of premiums). Spending for Medicaid and the State Children's Health Insurance Program would rise by an additional \$116 billion. Much of the added spending for Medicare and Medicaid results from the President's proposals for coverage of prescription drugs—such proposals are estimated to cost \$338 billion over 10 years. Debt service on policies specified by the Administration would add \$133 billion to outlays between 2001 and 2010 under the inflated variant and \$347 billion under the freeze variant.

In addition to the policies detailed by the Administration in the *Mid-Session Review*, \$500 billion would be set aside through 2010 for a "Reserve for America's Future." The Administration has not specified whether that reserve would be used for tax cuts, spending increases, or some combination of the two. CBO has included the \$500 billion in its analysis of the *Mid-Session Review* and estimates that such a reduction in the surplus would lead to additional debt-service costs of \$118 billion between 2001 and 2010.

The Administration's policies would reduce on-budget surpluses by \$300 billion over the 2001-2005 period and \$1.3 trillion over the 2001-2010 period relative to the inflated variation of the baseline (see Table 7). Reductions relative to the freeze and capped variants would total \$2.5 trillion over 10 years. In addition, shifting the HI trust fund off-budget would decrease the cumulative on-budget surplus (and increase the off-budget surplus) by \$515 billion between 2001 and 2010.

Health Care Initiatives

The *Mid-Session Review* contains several changes to the health insurance package that was included in the budget released in February.³ Of the changes, those with the largest impact include proposals to add catastrophic coverage to the prescription drug benefit for Medicare, to begin the benefit in 2002 rather than 2003, to maintain some of Medicare's payment rates that were previously targeted for reduction, and to increase other payments to Medicare providers.

CBO estimated that the health insurance initiatives in the President's initial budget for fiscal year 2001 would increase mandatory spending by \$168 billion from 2001 to 2010.⁴ The modifications in the *Mid-Session Review* would increase such

3. For a more detailed discussion of those changes, see the attachment, *CBO's Analysis of the Health Insurance Initiatives in the Mid-Session Review* (July 2000).

4. CBO's estimate of the February budget proposals reflects the estimate of the Medicare prescription drug benefit as revised in testimony before the Subcommittee on Health of the House Committee on Ways and Means on May 11, 2000.

spending by an additional \$261 billion, CBO estimates (see Table 8). Changing the prescription drug benefit would account for \$182 billion of the increase, maintaining some payment rates for providers and increasing others would account for another \$75 billion, and various other changes would make up the remaining increase.

In total, CBO estimates that the President's health insurance initiatives would cost \$444 billion between 2001 and 2010—an increase in direct spending of \$429 billion, a decrease in revenues of \$9 billion, and additional appropriations of nearly \$6 billion to administer the prescription drug benefit.⁵ The Administration, by contrast, projects a \$356 billion reduction in the total surplus—a difference of \$88 billion—owing mostly to different cost estimates for the prescription drug benefit.

Accounting Changes and Intrabudgetary Transactions

The Administration proposes to assign an extra \$115 billion in general government funds to the HI trust fund over the next 10 years. Adding to the trust fund balance may make the program appear more financially sound, but the fund's balance is not a good indicator of the government's ability to meet its future obligations to Medicare beneficiaries. That ability will depend on the government's overall fiscal condition rather than on the size of the balance.

The Administration would also change the budget categorization of the fund so that its receipts and outlays were considered off-budget (like those of the Social Security trust funds). Placing the HI trust fund off-budget would also, by itself, have no effect on the economy or on the resources available to meet future needs. But if lawmakers chose to adopt a goal of preserving off-budget surpluses for debt reduction, the proposed accounting change might make the amount of the HI surpluses (and transfers from the general fund) less vulnerable to proposals to increase spending or reduce taxes, thus enhancing the prospects for long-term economic growth.

However, there is a possible downside to making those two accounting changes. Pumping up balances to extend the trust fund's solvency on paper and moving the fund off-budget could provide lawmakers and the public with a false sense of security and deter needed reform.

5. Because the Administration did not request additional budget authority to cover the costs of administering the prescription drug program in its proposals for discretionary spending, CBO has not included that spending in its estimates of the surplus.

Discretionary Spending

As a key component of its budget, the Administration proposes to increase and extend the statutory limits on discretionary spending that are in effect through 2002. (The Administration also proposes to extend the current pay-as-you-go requirements for mandatory spending and revenues.) It advocates setting caps on budget authority and outlays after 2001 at or slightly below levels that would allow future discretionary spending to keep pace with inflation through 2010. For 2001, CBO estimates that the Administration's proposed level of budget authority would be \$13 billion above a level consistent with inflation and \$83 billion above the current cap (see Table 9).

Under the policies of the *Mid-Session Review*, discretionary budget authority would grow from \$624 billion in 2001 to \$763 billion in 2010—an average rate of growth of 2.3 percent. Those levels are slightly higher than the ones proposed in February's budget; however, the effect on outlays is an additional \$5 billion or less each year and totals about \$30 billion over the 2001-2010 period (see Table 4).

COMPARISON OF CBO'S AND THE ADMINISTRATION'S ESTIMATES

Most of the differences between CBO's and the Administration's estimates of the proposals in the *Mid-Session Review* stem from differences in spending and revenues estimated under current policies. For the 2001-2010 period, CBO projects \$259 billion more in revenues and \$128 billion less in mandatory spending (excluding net interest) in its baseline than does the Administration in its current-services estimates.⁶ Although such discrepancies may seem large, they represent differences of just 1 percent in both the total revenues and the mandatory spending projected for that period.

Overall, CBO's estimate of the cumulative surplus between 2001 and 2010 under the *Mid-Session Review* is \$334 billion higher than that of the Administration. CBO's baseline surpluses (using the inflated variation) are \$368 billion higher than those projected using the Administration's current-services baseline; however, CBO estimates that the policies in the *Mid-Session Review* will cost \$33 billion more than the Administration calculates.

Differences in economic assumptions contribute little to those relatively small differences in budget estimates. The Administration's economic outlook is broadly similar to that of CBO (see Table 10). CBO assumes slightly slower growth

6. See Congressional Budget Office, *The Budget and Economic Outlook: An Update* (July 2000), Chapter 1, for a comparison with the Administration's current-services estimates.

of real (inflation-adjusted) gross domestic product (GDP) after 2000 and similar rates of inflation. Unemployment rates are lower in CBO's projections than in the Administration's until the second half of the decade, when the two estimates both average 5.1 percent. CBO forecasts higher interest rates than does the Administration for calendar years 2000 and 2001, but after that, the Administration assumes that short-term interest rates will average almost a percentage point more than CBO does.

TABLE 1. COMPARISON OF CBO'S AND THE ADMINISTRATION'S ESTIMATES OF THE PRESIDENT'S
MID-SESSION REVIEW (By fiscal year, in billions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total, 2001- 2005	Total, 2001- 2010
CBO's Estimate of the Administration's Mid-Session Review													
Revenues	2,008	2,119	2,203	2,285	2,379	2,477	2,571	2,680	2,798	2,929	3,067	11,462	25,508
Outlays	1,788	1,845	1,924	1,979	2,057	2,140	2,195	2,264	2,357	2,450	2,549	9,946	21,761
Reserve for America's Future	<u>n.a.</u>	<u>20</u>	<u>25</u>	<u>25</u>	<u>26</u>	<u>27</u>	<u>49</u>	<u>75</u>	<u>83</u>	<u>85</u>	<u>85</u>	<u>123</u>	<u>500</u>
Surplus	221	254	254	280	296	309	328	341	358	393	433	1,394	3,246
On-budget	47	27	18	37	40	38	35	37	31	40	47	159	349
Off-budget ^a	174	227	237	244	256	272	293	305	327	353	385	1,235	2,898
Administration's Estimate of the Mid-Session Review													
Revenues	2,013	2,096	2,168	2,245	2,339	2,440	2,537	2,661	2,790	2,916	3,065	11,288	25,256
Outlays	1,802	1,848	1,919	1,984	2,059	2,145	2,202	2,282	2,375	2,467	2,563	9,955	21,844
Reserve for America's Future	<u>n.a.</u>	<u>20</u>	<u>25</u>	<u>25</u>	<u>26</u>	<u>27</u>	<u>49</u>	<u>75</u>	<u>83</u>	<u>85</u>	<u>85</u>	<u>123</u>	<u>500</u>
Surplus	211	228	224	236	255	268	286	304	332	364	416	1,210	2,912
On-budget	39	9	1	6	10	1	1	1	2	4	14	27	49
Off-budget ^a	172	219	223	230	245	267	285	302	330	360	402	1,183	2,863
Difference (CBO minus Administration)													
Revenues	-5	23	35	40	40	37	34	20	9	13	2	174	252
Outlays	-14	-3	5	-5	-2	-5	-7	-17	-18	-16	-14	-10	-82
Reserve for America's Future	<u>n.a.</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Surplus	9	26	30	45	42	42	42	37	26	29	16	184	334
On-budget	7	18	16	31	30	37	34	35	29	36	33	132	300
Off-budget ^a	2	8	14	14	12	5	7	2	-3	-7	-17	52	35

SOURCE: Congressional Budget Office.

NOTE: n.a. = not applicable.

a. Includes Medicare's Hospital Insurance program.

TABLE 2. CBO'S ESTIMATE OF THE PRESIDENT'S *MID-SESSION REVIEW* (By fiscal year)

	Actual 1999 ^a	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
In Billions of Dollars												
Revenues	1,827	2,008	2,119	2,203	2,285	2,379	2,477	2,571	2,680	2,798	2,929	3,067
On-budget	1,251	1,395	1,463	1,511	1,561	1,625	1,686	1,747	1,821	1,903	1,992	2,088
Off-budget	577	613	656	692	724	754	790	824	859	896	936	979
Outlays												
Discretionary spending	575	616	637	657	672	688	707	718	732	754	773	791
Mandatory spending	978	1,028	1,080	1,178	1,254	1,342	1,434	1,506	1,593	1,696	1,805	1,924
Offsetting receipts	-80	-80	-90	-117	-128	-134	-143	-152	-163	-175	-188	-203
Net interest	230	224	219	205	181	162	142	122	102	82	67	59
Proceeds from investing excess cash	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-6	-22
Total	1,703	1,788	1,845	1,924	1,979	2,057	2,140	2,195	2,264	2,357	2,450	2,549
On-budget	1,272	1,349	1,416	1,469	1,493	1,555	1,619	1,654	1,702	1,781	1,858	1,945
Off-budget	432	439	429	455	486	502	521	541	562	577	592	604
Reserve for America's Future	n.a.	n.a.	20	25	25	26	27	49	75	83	85	85
Deficit (-) or Surplus	124	221	254	254	280	296	309	328	341	358	393	433
On-budget	-21	47	27	18	37	40	38	35	37	31	40	47
Off-budget	145	174	227	237	244	256	272	293	305	327	353	385
Debt Held by the Public	3,633	3,421	3,184	2,938	2,670	2,386	2,088	1,769	1,436	1,084	887	830
Accumulated Excess Cash	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	189	558
As a Percentage of GDP												
Revenues	20.0	20.6	20.6	20.4	20.2	20.1	20.0	19.9	19.8	19.8	19.8	19.8
On-budget	13.7	14.3	14.2	14.0	13.8	13.7	13.6	13.5	13.5	13.5	13.5	13.5
Off-budget	6.3	6.3	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.3	6.3	6.3
Outlays												
Discretionary spending	6.3	6.3	6.2	6.1	5.9	5.8	5.7	5.6	5.4	5.3	5.2	5.1
Mandatory spending	10.7	10.5	10.5	10.9	11.1	11.3	11.6	11.6	11.8	12.0	12.2	12.4
Offsetting receipts	-0.9	-0.8	-0.9	-1.1	-1.1	-1.1	-1.2	-1.2	-1.2	-1.2	-1.3	-1.3
Net interest	2.5	2.3	2.1	1.9	1.6	1.4	1.1	0.9	0.8	0.6	0.5	0.4
Proceeds from investing excess cash	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*	-0.1
Total	18.7	18.3	17.9	17.8	17.5	17.4	17.3	17.0	16.7	16.7	16.6	16.5
On-budget	13.9	13.8	13.7	13.6	13.2	13.1	13.1	12.8	12.6	12.6	12.6	12.6
Off-budget	4.7	4.5	4.2	4.2	4.3	4.2	4.2	4.2	4.2	4.1	4.0	3.9
Reserve for America's Future	n.a.	n.a.	0.2	0.2	0.2	0.2	0.2	0.4	0.6	0.6	0.6	0.5
Deficit (-) or Surplus	1.4	2.3	2.5	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.7	2.8
On-budget	-0.2	0.5	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3
Off-budget	1.6	1.8	2.2	2.2	2.2	2.2	2.2	2.3	2.3	2.3	2.4	2.5
Debt Held by the Public	39.9	35.1	30.9	27.2	23.6	20.2	16.9	13.7	10.6	7.7	6.0	5.4
Accumulated Excess Cash	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.3	3.6
Memorandum:												
Gross Domestic Product (Billions of dollars)	9,116	9,758	10,303	10,814	11,322	11,834	12,370	12,933	13,521	14,137	14,797	15,495

SOURCE: Congressional Budget Office.

NOTES: Medicare's Hospital Insurance trust fund is considered off-budget, as proposed by the President.

* = between -0.05 percent and 0.05 percent; n.a. = not applicable.

a. Adjusted to place Medicare's Hospital Insurance revenues and outlays off-budget.

TABLE 3. ESTIMATES OF SURPLUSES UNDER THE ADMINISTRATION'S *MID-SESSION REVIEW*
AND CBO'S BASELINE PROJECTIONS (By fiscal year, in billions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total, 2001- 2005	Total, 2001- 2010
CBO's Estimate of the Administration's <i>Mid-Session Review</i>													
On-Budget Surplus	47	27	18	37	40	38	35	37	31	40	47	159	349
Off-Budget Surplus ^a	<u>174</u>	<u>227</u>	<u>237</u>	<u>244</u>	<u>256</u>	<u>272</u>	<u>293</u>	<u>305</u>	<u>327</u>	<u>353</u>	<u>385</u>	<u>1,235</u>	<u>2,898</u>
Total Surplus	221	254	254	280	296	309	328	341	358	393	433	1,394	3,246
CBO's Baseline Projections													
<i>Discretionary Spending Grows at the Rate of Inflation After 2000^b</i>													
On-Budget Surplus	84	102	126	143	154	169	222	260	288	332	377	695	2,173
Off-Budget Surplus ^a	<u>149</u>	<u>165</u>	<u>186</u>	<u>202</u>	<u>215</u>	<u>232</u>	<u>247</u>	<u>263</u>	<u>278</u>	<u>293</u>	<u>307</u>	<u>1,001</u>	<u>2,388</u>
Total Surplus	232	268	312	345	369	402	469	523	565	625	685	1,696	4,561
<i>Discretionary Spending Is Frozen at the Level Enacted for 2000^b</i>													
On-Budget Surplus	84	116	157	195	231	270	346	410	466	541	618	969	3,349
Off-Budget Surplus ^a	<u>149</u>	<u>166</u>	<u>187</u>	<u>202</u>	<u>216</u>	<u>233</u>	<u>248</u>	<u>263</u>	<u>279</u>	<u>294</u>	<u>309</u>	<u>1,003</u>	<u>2,395</u>
Total Surplus	232	281	344	397	447	503	594	673	745	834	927	1,971	5,744
<i>Discretionary Spending Equals CBO's Estimates of the Statutory Caps Through 2002 and Grows at the Rate of Inflation Thereafter</i>													
On-Budget Surplus	84	163	219	245	263	290	348	393	433	488	545	1,179	3,387
Off-Budget Surplus ^a	<u>149</u>	<u>165</u>	<u>186</u>	<u>202</u>	<u>215</u>	<u>232</u>	<u>247</u>	<u>263</u>	<u>278</u>	<u>293</u>	<u>307</u>	<u>1,001</u>	<u>2,388</u>
Total Surplus	232	329	405	446	478	522	595	655	711	781	853	2,180	5,774
Memorandum:													
CBO's Estimate of the Administration's <i>Mid-Session Review</i> Assuming that Medicare's Hospital Insurance Remains On-Budget													
On-Budget Surplus	72	89	68	79	82	78	81	79	81	101	126	395	863
Off-Budget Surplus ^a	<u>149</u>	<u>165</u>	<u>186</u>	<u>201</u>	<u>215</u>	<u>232</u>	<u>246</u>	<u>262</u>	<u>277</u>	<u>292</u>	<u>307</u>	<u>998</u>	<u>2,383</u>
Total Surplus	221	254	254	280	296	309	328	341	358	393	433	1,394	3,246

SOURCE: Congressional Budget Office.

a. Includes Medicare's Hospital Insurance program.

b. After adjustment for advance appropriations.

TABLE 4. COMPARISON OF CBO'S APRIL 2000 ESTIMATE OF THE PRESIDENT'S BUDGETARY PROPOSALS WITH CBO'S ESTIMATE OF THE *MID-SESSION REVIEW* (By fiscal year, in billions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CBO's Estimate of the <i>Mid-Session Review</i>											
Revenues	2,008	2,119	2,203	2,285	2,379	2,477	2,571	2,680	2,798	2,929	3,067
Outlays											
Discretionary	616	637	657	672	688	707	718	732	754	773	791
Mandatory	948	989	1,062	1,126	1,207	1,292	1,354	1,430	1,521	1,617	1,722
Net interest and excess cash	<u>224</u>	<u>219</u>	<u>205</u>	<u>181</u>	<u>162</u>	<u>142</u>	<u>122</u>	<u>102</u>	<u>82</u>	<u>60</u>	<u>37</u>
Subtotal	1,788	1,845	1,924	1,979	2,057	2,140	2,195	2,264	2,357	2,450	2,549
Reserve for America's Future	n.a.	20	25	25	26	27	49	75	83	85	85
Total Surplus	221	254	254	280	296	309	328	341	358	393	433
CBO's April 2000 Estimate of the President's Budgetary Proposals											
Revenues	1,946	2,026	2,097	2,171	2,262	2,352	2,443	2,547	2,659	2,781	2,912
Outlays											
Discretionary	611	635	656	670	684	701	714	729	752	770	788
Mandatory	942	983	1,037	1,094	1,171	1,251	1,309	1,382	1,469	1,561	1,659
Net interest and excess cash	<u>225</u>	<u>218</u>	<u>209</u>	<u>194</u>	<u>179</u>	<u>162</u>	<u>146</u>	<u>129</u>	<u>111</u>	<u>91</u>	<u>70</u>
Subtotal	1,778	1,836	1,902	1,958	2,033	2,114	2,170	2,240	2,331	2,422	2,516
Reserve for America's Future	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total Surplus	168	190	196	213	228	238	273	307	328	360	395
Difference (Mid-Session minus April Estimate)											
Revenues	63	93	106	114	117	124	128	133	139	147	155
Outlays											
Discretionary	5	2	1	2	4	5	4	3	3	3	3
Mandatory	6	7	25	32	37	41	45	48	52	56	63
Net interest and excess cash	<u>*</u>	<u>1</u>	<u>-4</u>	<u>-13</u>	<u>-17</u>	<u>-21</u>	<u>-24</u>	<u>-27</u>	<u>-29</u>	<u>-31</u>	<u>-33</u>
Subtotal	10	9	22	22	24	26	24	24	26	29	33
Reserve for America's Future	n.a.	20	25	25	26	27	49	75	83	85	85
Total Surplus	53	64	59	67	68	71	55	34	30	34	37
Memorandum:											
Change in Baseline	58	90	108	125	133	146	158	171	187	205	223
Change in Policies	-5	-26	-50	-57	-65	-74	-103	-137	-156	-171	-185

SOURCE: Congressional Budget Office.

NOTE: * = between -\$500 million and \$500 million; n.a. = not applicable.

TABLE 5. CBO'S ESTIMATE OF THE PRESIDENT'S *MID-SESSION REVIEW* PROPOSALS RELATIVE TO CBO'S BASELINE PROJECTIONS ASSUMING INFLATED APPROPRIATIONS (By fiscal year, in billions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total, 2001- 2005	Total, 2001- 2010
CBO's Estimate of the Total Budget Surplus Under the Inflated Variation of the Baseline ^a	232	268	312	345	369	402	469	523	565	625	685	1,696	4,561
Impact of the President's Proposals													
Revenues													
Reductions	*	-5	-14	-21	-25	-35	-44	-47	-50	-54	-57	-100	-352
Increases	<u>1</u>	<u>15</u>	<u>15</u>	<u>15</u>	<u>25</u>	<u>26</u>	<u>22</u>	<u>22</u>	<u>22</u>	<u>22</u>	<u>22</u>	<u>95</u>	<u>205</u>
Total Impact on Revenues	1	10	1	-6	-1	-9	-23	-25	-28	-32	-35	-5	-147
Outlays													
Discretionary spending													
Defense	5	-2	-1	-3	-3	-4	-6	-6	-4	-4	-4	-14	-37
Nondefense	<u>3</u>	<u>2</u>	<u>2</u>	<u>-1</u>	<u>-2</u>	<u>-2</u>	<u>-4</u>	<u>-6</u>	<u>-6</u>	<u>-8</u>	<u>-10</u>	<u>-1</u>	<u>-35</u>
Subtotal	8	-1	1	-4	-5	-6	-10	-11	-10	-12	-14	-15	-72
Mandatory spending ^b													
Medicare outlays	0	6	30	32	40	43	47	52	58	65	72	150	443
Medicare premiums	0	-1	-10	-12	-14	-13	-14	-14	-16	-18	-20	-51	-133
Medicaid	0	1	1	3	5	7	*	4	9	10	12	17	52
State Children's Health Insurance Program	0	*	1	2	3	5	18	13	7	8	7	11	64
Supplemental Security Income	2	-2	*	*	*	1	1	1	1	2	2	-1	6
Earned income tax credit	*	2	2	2	2	2	2	2	2	2	2	11	22
Child and dependent care tax credit	0	0	0	1	2	2	3	3	3	3	4	4	20
Other	<u>2</u>	<u>-1</u>	<u>5</u>	<u>2</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>9</u>	<u>14</u>
Subtotal	4	3	29	30	40	47	58	62	66	73	80	150	489
Net interest ^c	<u>*</u>	<u>*</u>	<u>1</u>	<u>3</u>	<u>5</u>	<u>8</u>	<u>12</u>	<u>17</u>	<u>22</u>	<u>28</u>	<u>35</u>	<u>19</u>	<u>133</u>
Total Impact on Outlays	12	3	32	30	41	49	60	67	77	90	101	154	550
Reserve for America's Future													
Revenues or outlays	0	20	25	25	26	27	49	75	83	85	85	123	500
Debt service	<u>0</u>	<u>1</u>	<u>2</u>	<u>4</u>	<u>5</u>	<u>7</u>	<u>10</u>	<u>14</u>	<u>19</u>	<u>25</u>	<u>31</u>	<u>20</u>	<u>118</u>
Subtotal	0	21	27	29	31	34	59	89	102	110	116	143	618
Net Impact of the President's Proposals on the Total Budget Surplus	-12	-14	-58	-64	-73	-92	-141	-181	-207	-231	-252	-302	-1,315
CBO's Estimate of the Total Budget Surplus Under the President's Proposals	221	254	254	280	296	309	328	341	358	393	433	1,394	3,246

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

NOTE: * = between -\$500 million and \$500 million.

- a. Assumes that discretionary spending grows at the rate of inflation after 2000.
- b. Includes offsetting receipts.
- c. Includes proceeds from investing excess cash.

TABLE 6. CBO'S ESTIMATE OF THE PRESIDENT'S *MID-SESSION REVIEW* PROPOSALS RELATIVE TO CBO'S BASELINE PROJECTIONS ASSUMING FROZEN APPROPRIATIONS (By fiscal year, in billions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total, 2001- 2005	Total, 2001- 2010
CBO's Estimate of the Total Budget Surplus Under the Freeze Variation of the Baseline ^a	232	281	344	397	447	503	594	673	745	834	927	1,971	5,744
Impact of the President's Proposals													
Revenues													
Reductions	*	-5	-14	-21	-25	-35	-44	-47	-50	-54	-57	-100	-352
Increases	<u>1</u>	<u>15</u>	<u>15</u>	<u>15</u>	<u>25</u>	<u>26</u>	<u>22</u>	<u>22</u>	<u>22</u>	<u>22</u>	<u>22</u>	<u>95</u>	<u>205</u>
Total Impact on Revenues	1	10	1	-6	-1	-9	-23	-25	-28	-32	-35	-5	-147
Outlays													
Discretionary spending													
Defense	5	5	15	21	30	37	44	52	63	73	83	108	424
Nondefense	<u>3</u>	<u>7</u>	<u>15</u>	<u>22</u>	<u>35</u>	<u>45</u>	<u>52</u>	<u>60</u>	<u>70</u>	<u>79</u>	<u>87</u>	<u>125</u>	<u>473</u>
Subtotal	8	12	30	44	65	82	96	113	133	152	170	232	896
Mandatory spending ^b													
Medicare outlays	0	6	30	32	40	43	47	52	58	65	72	150	443
Medicare premiums	0	-1	-10	-12	-14	-13	-14	-14	-16	-18	-20	-51	-133
Medicaid	0	1	1	3	5	7	*	4	9	10	12	17	52
State Children's Health Insurance Program	0	*	1	2	3	5	18	13	7	8	7	11	64
Supplemental Security Income	2	-2	*	*	*	1	1	1	1	2	2	-1	6
Earned income tax credit	*	2	2	2	2	2	2	2	2	2	2	11	22
Child and dependent care tax credit	0	0	0	1	2	2	3	3	3	3	4	4	20
Other	<u>2</u>	<u>-1</u>	<u>5</u>	<u>2</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>9</u>	<u>14</u>
Subtotal	4	3	29	30	40	47	58	62	66	73	80	150	489
Net interest ^c	<u>*</u>	<u>1</u>	<u>4</u>	<u>8</u>	<u>13</u>	<u>21</u>	<u>31</u>	<u>43</u>	<u>58</u>	<u>75</u>	<u>94</u>	<u>47</u>	<u>347</u>
Total Impact on Outlays	12	16	63	82	119	150	185	218	257	300	344	430	1,732
Reserve for America's Future													
Revenues or outlays	0	20	25	25	26	27	49	75	83	85	85	123	500
Debt service	<u>0</u>	<u>1</u>	<u>2</u>	<u>4</u>	<u>5</u>	<u>7</u>	<u>10</u>	<u>14</u>	<u>19</u>	<u>25</u>	<u>31</u>	<u>20</u>	<u>118</u>
Subtotal	0	21	27	29	31	34	59	89	102	110	116	143	618
Net Impact of the President's Proposals on the Total Budget Surplus	-12	-28	-89	-116	-151	-193	-266	-332	-386	-441	-495	-577	-2,497
CBO's Estimate of the Total Budget Surplus Under the President's Proposals	221	254	254	280	296	309	328	341	358	393	433	1,394	3,246

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

NOTE: * = between -\$500 million and \$500 million.

a. Assumes that discretionary spending each year equals the level enacted for 2000, plus the amount already enacted for 2001.

b. Includes offsetting receipts.

c. Includes proceeds from investing excess cash.

TABLE 7. IMPACT OF THE PRESIDENT'S BUDGETARY PROPOSALS IN THE *MID-SESSION REVIEW*
ON CUMULATIVE ON-BUDGET SURPLUSES (In billions of dollars)

	Inflated Appropriations		Frozen Appropriations		Capped Appropriations	
	2001-2005	2001-2010	2001-2005	2001-2010	2001-2005	2001-2010
Cumulative On-Budget Surpluses Under CBO's Baseline	695	2,173	969	3,349	1,179	3,387
Impact of the President's Proposals on the Surplus						
Changes in taxes	-5	-147	-5	-147	-5	-147
Changes in discretionary spending	15	71	-231	-891	-405	-850
Coverage of prescription drugs	-98	-338	-98	-338	-98	-338
Other health care	-30	-91	-30	-91	-30	-91
Reserve for America's Future	-123	-500	-123	-500	-123	-500
Debt service ^a	-38	-250	-66	-464	-103	-543
Other	-19	-55	-19	-55	-19	-55
Subtotal	-300	-1,310	-573	-2,486	-784	-2,524
Moving Hospital Insurance Off-Budget	-237	-515	-237	-515	-237	-515
Total Adjustments	-536	-1,825	-810	-3,001	-1,021	-3,038
CBO's Estimate of the On-Budget Surpluses Under the <i>Mid-Session Review</i>	159	349	159	349	159	349

SOURCE: Congressional Budget Office.

a. Includes proceeds from investing excess cash.

TABLE 8. COMPARISON OF CBO'S ESTIMATE OF THE PRESIDENT'S HEALTH INSURANCE INITIATIVES IN THE FEBRUARY BUDGET WITH CBO'S ESTIMATE OF THE HEALTH INSURANCE INITIATIVES IN THE *MID-SESSION REVIEW* (By fiscal year, in billions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total, 2001- 2005	Total, 2001- 2010
CBO's Estimate of the President's February Health Initiatives^a												
Mandatory Spending												
Family Care	*	1	2	3	5	10	9	8	9	9	11	56
Prescription drug coverage												
Medicare	0	0	7	11	13	15	17	19	22	25	31	129
Medicaid	0	*	1	2	3	3	4	4	4	5	6	26
Other	*	3	-6	-4	-5	-6	-6	-6	-7	-7	-12	-44
Subtotal	*	5	4	12	16	23	25	25	28	31	36	168
Revenues	0	*	-1	-1	-1	-1	-1	-1	-1	-2	-2	-8
Administrative Costs ^b	0	0	0	0	0	0	0	0	0	0	0	0
Total Effect on Surplus	*	-5	-5	-13	-17	-24	-26	-26	-30	-32	-38	-176
Modifications to February Proposals												
Mandatory Spending												
Family care	0	0	0	0	0	0	0	0	0	0	0	0
Prescription drug coverage												
Medicare	0	13	14	14	15	17	19	22	25	29	56	168
Medicaid	*	*	1	2	2	2	2	2	2	2	6	15
Other	5	5	6	7	8	9	9	10	10	11	31	79
Subtotal	5	18	21	23	25	28	30	33	37	41	92	261
Revenues	0	*	*	*	*	*	*	*	*	*	*	-1
Administrative Costs ^b	1	1	1	1	1	*	*	*	1	1	3	6
Total Effect on Surplus	-6	-19	-22	-23	-26	-28	-31	-34	-37	-42	-96	-268
CBO's Estimate of the President's <i>Mid-Session Review</i> Health Initiatives												
Mandatory Spending												
Family care	*	1	2	3	5	10	9	8	9	9	11	56
Prescription drug coverage												
Medicare	0	13	21	24	28	32	37	41	47	53	86	297
Medicaid	*	1	2	4	5	5	5	6	6	6	12	41
Other	5	8	*	3	3	3	3	3	3	3	19	35
Subtotal	5	23	25	35	41	51	55	58	65	71	129	429
Revenues	0	*	-1	-1	-1	-1	-1	-1	-2	-2	-2	-9
Administrative Costs ^b	1	1	1	1	1	*	*	*	1	1	3	6
Total Effect on Surplus	-6	-24	-26	-36	-42	-52	-56	-60	-67	-74	-134	-444
Memorandum:												
May 2000 Reestimate of the Prescription Drug Benefit ^a	0	*	1	1	1	1	1	1	1	1	2	6

SOURCE: Congressional Budget Office.

NOTE: * = between -\$500 million and \$500 million.

- CBO's estimate of the February budget proposals reflects the estimate of the Medicare prescription drug benefit as revised in testimony presented before the Subcommittee on Health of the House Committee on Ways and Means on May 11, 2000.
- Although CBO did not estimate additional administrative costs in February, the proposed drug benefit would necessitate additional administrative costs that would be subject to appropriations. Because the Administration did not request such additional appropriations as part of its discretionary totals, those costs are not included in CBO's calculation of surpluses under the policies of the *Mid-Session Review*.

TABLE 9. ESTIMATE OF DISCRETIONARY SPENDING UNDER THE *MID-SESSION REVIEW*
AND CBO'S BASELINE PROJECTIONS (By fiscal year, in billions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CBO's Estimate of Total Discretionary Spending in the President's Budget											
Budget Authority											
Defense	292	306	310	316	324	332	341	350	359	368	378
Nondefense	<u>282</u>	<u>317</u>	<u>320</u>	<u>326</u>	<u>334</u>	<u>343</u>	<u>348</u>	<u>357</u>	<u>366</u>	<u>376</u>	<u>385</u>
Total	575	624	630	642	658	676	689	707	725	744	763
Outlays											
Defense	293	295	303	310	318	329	333	339	352	362	372
Nondefense	<u>322</u>	<u>342</u>	<u>354</u>	<u>362</u>	<u>370</u>	<u>378</u>	<u>385</u>	<u>393</u>	<u>402</u>	<u>411</u>	<u>419</u>
Total	616	637	657	672	688	707	718	732	754	773	791
CBO's Baseline Projections Assuming That Discretionary Spending Grows at the Rate of Inflation After 2000											
Budget Authority											
Defense	290	300	309	318	327	335	344	353	362	372	381
Nondefense	<u>280</u>	<u>310</u>	<u>320</u>	<u>330</u>	<u>339</u>	<u>348</u>	<u>357</u>	<u>366</u>	<u>376</u>	<u>386</u>	<u>396</u>
Total	570	611	629	648	666	683	701	719	738	757	777
Outlays											
Defense	288	297	304	313	322	333	339	345	357	366	376
Nondefense	<u>320</u>	<u>340</u>	<u>352</u>	<u>363</u>	<u>371</u>	<u>380</u>	<u>390</u>	<u>399</u>	<u>408</u>	<u>418</u>	<u>429</u>
Total	608	638	656	676	693	713	728	744	765	785	804
CBO's Baseline Projections Assuming That Discretionary Spending Is Frozen at the Level Enacted for 2000											
Budget Authority											
Defense	290	290	290	290	290	290	290	290	290	290	290
Nondefense	<u>280</u>	<u>296</u>	<u>296</u>	<u>296</u>	<u>296</u>	<u>296</u>	<u>296</u>	<u>296</u>	<u>296</u>	<u>296</u>	<u>296</u>
Total	570	586	586	586	586	586	586	586	586	586	586
Outlays											
Defense	288	290	288	289	289	291	289	287	289	289	289
Nondefense	<u>320</u>	<u>335</u>	<u>339</u>	<u>339</u>	<u>334</u>	<u>334</u>	<u>333</u>	<u>333</u>	<u>332</u>	<u>332</u>	<u>332</u>
Total	608	625	627	628	623	625	622	620	621	621	621
CBO's Estimate of the Current Caps on Discretionary Spending^a											
Budget Authority	572	541	550	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Outlays	600	579	571	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

SOURCE: Congressional Budget Office.

NOTE: n.a. = not applicable.

a. The current statutory limits do not divide discretionary spending into defense and nondefense costs.

TABLE 10. COMPARISON OF CBO'S AND THE ADMINISTRATION'S ECONOMIC PROJECTIONS
FOR CALENDAR YEARS 2000-2010

	Actual 1999	Forecast		Projected Annual Average	
		2000	2001	2001-2005	2006-2010
Nominal GDP (Billions of dollars)					
CBO	9,256	9,907	10,433	12,508 ^a	15,675 ^b
Administration		9,886	10,407	12,660 ^a	16,079 ^b
Nominal GDP (Percentage change)					
CBO	5.7	7.0	5.3	4.8	4.6
Administration		6.8	5.3	5.1	4.9
Real GDP ^c (Percentage change)					
CBO	4.2	4.9	3.1	2.7	2.7
Administration		4.8	3.2	3.0	2.8
GDP Price Index ^d (Percentage change)					
CBO	1.4	2.1	2.1	2.0	1.8
Administration		1.9	2.0	2.0	2.0
Consumer Price Index ^e (Percentage change)					
CBO	2.2	3.1	2.7	2.7	2.5
Administration		3.3	2.6	2.6	2.6
Unemployment Rate (Percent)					
CBO	4.2	3.8	3.7	4.3	5.1
Administration		4.1	4.1	4.5	5.1
Three-Month Treasury Bill Rate (Percent)					
CBO	4.6	5.9	6.7	5.3	4.8
Administration		5.8	6.3	5.9	5.8
Ten-Year Treasury Note Rate (Percent)					
CBO	5.6	6.5	6.8	6.0	5.7
Administration		6.3	6.3	6.3	6.3
Tax Bases (Percentage of GDP)					
Corporate profits ^f					
CBO	9.2	9.2	8.4	7.6	7.0
Administration		8.9	8.2	8.1	7.5
Wages and salaries					
CBO	48.3	48.1	48.5	48.6	48.3
Administration		48.2	48.4	48.1	47.8

SOURCES: Congressional Budget Office; Office of Management and Budget, *Mid-Session Review: Budget of the United States Government, Fiscal Year 2001* (June 26, 2000).

NOTE: Percentage changes are year over year.

a. Level of GDP in 2005.

b. Level of GDP in 2010.

c. Based on chained 1996 dollars.

d. The GDP price index is virtually the same as the implicit GDP deflator.

e. The consumer price index for all urban consumers.

f. Corporate profits are book profits.

ATTACHMENT

CBO's Analysis of the Health Insurance Initiatives in the *Mid-Session Review*

July 18, 2000

The President's *Mid-Session Review* of the budget incorporates modifications to the health insurance initiatives that were included in the budget submitted in February.⁷ The Congressional Budget Office (CBO) estimates that those initiatives, as modified, would increase direct spending by \$4.7 billion in 2001, \$129 billion over the 2001-2005 period, and \$429 billion over the 2001-2010 period (see Table 1).⁸ The modified proposals would also reduce revenues by \$9 billion through 2010. Because the proposals would affect direct spending and revenues, pay-as-you-go procedures would apply to them.

The President's budget does not include a request for appropriations to cover the administrative cost of establishing and operating the prescription drug benefit proposed for Medicare. Assuming that the necessary amounts are appropriated, CBO estimates that administrative spending for the prescription drug benefit would total \$0.9 billion in 2001, \$3 billion through 2005, and \$6 billion through 2010.

POLICY CHANGES IN THE *MID-SESSION REVIEW*

The *Mid-Session Review* modifies the Administration's previous proposals for Medicare by:

- Expanding the proposed Medicare prescription drug benefit to include catastrophic coverage and starting the benefit in 2002 rather than 2003;
- Eliminating provisions in the February budget that would have reduced Medicare's payment rates for certain services (compared with baseline projections);

7. For details of the original initiatives and their cost, see Congressional Budget Office, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2001* (April 2000), and *A CBO Analysis of the Administration's Prescription Drug Proposal*, statement of Dan L. Crippen, Director, before the Subcommittee on Health, Committee on Ways and Means, May 11, 2000 (available at www.cbo.gov).

8. These estimates reflect the specifications of the President's proposals that underlie the estimates in the *Mid-Session Review*. On July 11, the Office of Management and Budget informed CBO that some of the drug spending for certain low-income beneficiaries that was assumed to be subsidized in the Administration's estimate would not, in fact, be subsidized. That difference would reduce the cost of the proposals by \$17 billion over 10 years. CBO estimates that without those subsidies, direct spending would total \$123 billion over the 2001-2005 period and \$412 billion over the 2001-2010 period.

TABLE 1. TEN-YEAR ESTIMATES OF CHANGES IN SPENDING AND REVENUES IN THE PRESIDENT'S HEALTH INSURANCE PROPOSALS (In billions of dollars)

	Administration's Estimate	CBO's Estimate
Direct Spending		
Medicaid and SCHIP (Federal payments)		
FamilyCare	76.0	56.2
Other Medicaid/SCHIP proposals	14.4	18.1
Effect of Medicare prescription drug benefit	20.3	40.7
Effect of higher drug prices on Medicaid	<u>0</u>	<u>1.4</u>
Subtotal	110.7	116.4
Medicare		
Prescription drug benefit	232.4	297.0
Changes to traditional Medicare	17.9	26.8
Expanded eligibility for Medicare	2.9	0.2
Medicare competitive defined benefit	<u>-11.9</u>	<u>-13.7</u>
Subtotal	241.4	310.4
Other Federal Programs		
Diabetes research	0.3	0.3
Ricky Ray Hemophilia Relief Trust Fund	0.5	0.5
Effect of higher drug prices on FEHB program (For annuitants)	<u>0</u>	<u>0.1</u>
Subtotal	0.8	0.9
Social Security outlays for expanded eligibility for Medicare (Off-budget)	<u>1.1</u>	<u>1.4</u>
Total (Including off-budget)	354.0	429.1
Revenues		
Tax Credits for Expanded Eligibility for Medicare	-1.6	-8.4
Income Taxes and Medicare Payroll Taxes (On-budget)	0	-0.6
Social Security Payroll Taxes (Off-budget)	<u>0</u>	<u>-0.3</u>
Total (Including off-budget)	-1.6	-9.2
Spending Subject to Appropriations		
Medicare Administrative Costs for Prescription Drug Benefit	0	5.6
Total Budgetary Effect		
Decrease in the Total Budget Surplus Over 10 Years	355.6	443.9

SOURCE: Congressional Budget Office.

NOTE: SCHIP = State Children's Health Insurance Program; FEHB = Federal Employees Health Benefits program.

- Increasing payment rates for services furnished by hospitals, skilled nursing facilities, home health agencies, dialysis facilities, and Medicare+Choice plans (including paying for certain drug benefits offered by Medicare+Choice plans in 2001); and
- Earmarking about \$20 billion over 10 years for unspecified policies to increase payments to providers.

The *Mid-Session Review* also includes new proposals to:

- Freeze each state's limit on Medicaid disproportionate share hospital (DSH) funds in 2001 at the 2000 level;
- Reduce the amounts that some veterans enrolled in Medicaid must pay for nursing home care; and
- Increase funds for diabetes research and the Ricky Ray Hemophilia Relief Trust Fund, which gives relief payments to certain people infected with the human immunodeficiency virus (HIV).

Finally, the *Mid-Session Review* proposals do not include two provisions from the President's February budget that have become law:

- A demonstration project to pay for services furnished to Medicare patients participating in clinical trials (the President issued an executive memorandum on June 7 requiring Medicare to pay for those services) and
- A school lunch initiative that will result in higher enrollment in Medicaid and the State Children's Health Insurance Program (SCHIP) and that was enacted as part of Public Law 106-224, the Agricultural Risk Protection Act of 2000.

Other health insurance provisions proposed in February (including FamilyCare, expanded eligibility for Medicare, and the Medicare competitive defined benefit) have not changed, and CBO has not reestimated their costs.

OVERALL ESTIMATES OF THE PRESIDENT'S INITIAL AND MID-SESSION PROPOSALS FOR HEALTH INSURANCE INITIATIVES

CBO previously estimated that the health insurance initiatives in the February budget would increase direct spending for Medicare, Medicaid, and SCHIP by about \$166

billion through 2010 (see Table 2). The policies in the *Mid-Session Review* would cost an estimated \$261 billion more, for a total of \$427 billion.⁹ Changes in the *Mid-Session Review* would also increase direct spending by other agencies by \$2 billion over 10 years. Outlays for Social Security, which are off-budget, account for \$1 billion of that 10-year total. (The President proposes to move Medicare's Hospital Insurance Trust Fund off-budget as well.)

Expanding the Medicare prescription drug benefit to include coverage of catastrophic drug spending and beginning the benefit a year earlier account for \$182 billion of that increase. Those changes more than double the \$160 billion estimated cost of the original prescription drug proposal.

Most of the remaining cost increase from the proposals in the *Mid-Session Review* results from dropping provisions that would have reduced payments to Medicare providers and adding provisions that would increase Medicare payments. The dropped policies would have saved an estimated \$35 billion over 10 years, and the added policies would increase program spending by \$40 billion over the same period. Thus, compared with the President's February proposals, those changes would increase Medicare spending over the coming decade by an estimated \$75 billion—with payments to providers rising by almost \$84 billion and beneficiaries' premiums growing by more than \$8 billion.

COMPARISON OF CBO'S AND THE ADMINISTRATION'S ESTIMATES

Taken together, and including effects on revenues and discretionary spending, the President's health insurance initiatives would reduce the total surplus by \$444 billion over the 2001-2010 period, CBO estimates (see Table 1). Of that amount, \$116 billion would be spending for Medicaid and SCHIP, \$310 billion for Medicare benefits, \$2 billion for other federal programs, and \$9 billion in forgone tax revenues. In addition, CBO estimates that the Congress would have to appropriate enough money for the Department of Health and Human Services to establish and administer the prescription drug benefit; such costs would total \$6 billion through 2010.

The Administration, by contrast, estimates that the health insurance initiatives would reduce the total budget surplus by \$356 billion over the 2001-2010 period. That estimate is \$88 billion lower than CBO's figure, mainly because of differences in the estimated cost of the prescription drug benefit (including CBO's assumption that sufficient funds would be appropriated to administer the benefit).

9. CBO has made minor technical changes to its estimating methods since preparing estimates of the February budget proposals. Those changes account for a very small portion of the \$261 billion difference.

TABLE 2. ESTIMATED EFFECT ON DIRECT SPENDING OF CHANGES IN THE PRESIDENT'S HEALTH INSURANCE PROPOSALS

	Ten-Year Cost (Billions of Dollars)
Medicare	
CBO's Estimate of February Proposals ^a	67.3
Changes in <i>Mid-Session Review</i>	
Expand prescription drug benefit ^b	167.6
Drop policies to reduce payment rates	34.9
Add policies to increase payment rates	40.5
CBO's Estimate of <i>Mid-Session Review</i> Proposals	310.4
Medicaid and SCHIP	
CBO's Estimate of February Proposals ^a	98.2
Changes in <i>Mid-Session Review</i>	
Expand prescription drug benefit ^b	14.6
Other changes and interactions ^c	3.6
CBO's Estimate of <i>Mid-Session Review</i> Proposals	116.4
Total (Medicare, Medicaid, and SCHIP)	
CBO's Estimate of February Proposals ^a	165.6
Changes in <i>Mid-Session Review</i>	
Expand prescription drug benefit ^b	182.2
All other changes	79.0
CBO's Estimate of <i>Mid-Session Review</i> Proposals	426.8

SOURCE: Congressional Budget Office.

NOTE: SCHIP = State Children's Health Insurance Program.

- a. CBO's estimate of the February budget proposals reflects the estimate of the Medicare prescription drug benefit as revised in testimony presented before the Subcommittee on Health of the House Committee on Ways and Means on May 11, 2000.
- b. Consistent with the estimates in the Administration's *Mid-Session Review*, this estimate assumes that subsidies for low-income beneficiaries will cover all of their costs each year in excess of the initial coverage limit but less than the annual out-of-pocket cap. If the President's proposal does not include coverage of those costs, CBO estimates that the change in direct-spending outlays from expanding the prescription drug benefit would be \$163.3 billion over 10 years for Medicare, \$1.5 billion for Medicaid, and \$164.8 billion in total. CBO has made minor technical changes to its estimating methods since preparing estimates of the February budget proposals. Those changes account for a very small portion of the estimated cost of expanding the prescription drug benefit.
- c. Includes the effects of dropping the school lunch initiative (because it was enacted), freezing DSH allotments, and interactions with Medicare provisions and with a proposal to change rules regarding the treatment of income for veterans in nursing homes.

Although CBO estimates a higher cost for the prescription drug benefit than the Administration does, that difference is partially offset by CBO's estimate that net federal outlays under the FamilyCare proposal would be \$20 billion lower over the 2001-2010 period than the Administration anticipates.¹⁰

CBO'S ESTIMATES OF THE COST OF THE MEDICARE PRESCRIPTION DRUG BENEFIT

In February, the President proposed to create a voluntary outpatient prescription drug benefit under a new Part D of Medicare. As proposed in February, that benefit would begin in 2003 and be fully phased in by 2009. It would pay half of the cost of prescription drugs, up to a specified cap. The insured half of the benefit would be financed equally by premium payments from enrollees and by general tax revenues. After cost sharing and premiums are taken into account, enrollees would end up paying 75 percent of the cost of covered drugs and the government would pay 25 percent, up to the cap.

The premiums and cost-sharing payments of certain low-income Medicare beneficiaries would be subsidized through the Medicaid program. Subsidies would be available to beneficiaries who were fully eligible for both Medicare and Medicaid or had income below 150 percent of the poverty level. (People with income between 135 percent and 150 percent of the poverty level would receive only assistance with their premiums, on a sliding-scale basis.) The federal government would pay for subsidies for people who were fully eligible for both programs and for other beneficiaries with income below the poverty level at the normal Medicaid matching rate (57 percent, on average), with states paying the rest. Subsidy costs for other beneficiaries would be paid entirely by the federal government. The U.S. territories would not receive any additional funding for those subsidies.

In the *Mid-Session Review*, the President proposed to begin offering the prescription drug benefit in 2002 (so it would be fully phased in by 2008) and to add catastrophic coverage that would pay all of the cost of prescription drugs above a certain amount (\$4,000 in out-of-pocket spending in 2002, increasing with inflation in drug prices thereafter). The cost of the catastrophic coverage would be financed entirely by general tax revenues. Consistent with the assumptions underlying the Administration's *Mid-Session Review* estimate, CBO's analysis assumes that Medicaid would subsidize drug spending between the initial coverage limit and the annual out-of-pocket cap for participating beneficiaries with income below 135 percent of the poverty level.

10. See Congressional Budget Office, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2001*.

Medicare and Medicaid Spending for the Prescription Drug Benefit

As proposed in the *Mid-Session Review*, the prescription drug benefit would increase direct spending for Medicare and Medicaid by \$0.1 billion in 2001, \$98 billion over the 2001-2005 period, and \$338 billion over the 2001-2010 period, CBO estimates (see Table 3). By contrast, the Administration estimates that the prescription drug benefit would increase federal spending by \$253 billion through 2010.

The bulk of estimated spending for the prescription drug benefit over 10 years (\$297 billion) would come from Medicare. Payments for drug benefits would total an estimated \$442 billion through 2010, but they would be partially offset by \$152 billion in premiums paid by beneficiaries. In addition, Medicare would pay employers 67 percent of the premium-subsidy costs that it would have incurred if the retirees for whom employers are providing drug coverage had enrolled in Part D instead. CBO estimates that those subsidies would total \$7 billion over the 2001-2010 period.

The President's prescription drug proposal would also increase net federal spending for Medicaid: by \$12 billion through 2005 and \$41 billion through 2010, CBO estimates. The premium and cost-sharing subsidies that Medicaid would pay for low-income Medicare beneficiaries would cost the federal government \$65 billion over 10 years, but that increase would be partly offset by savings in Medicaid, because Medicare would replace Medicaid as the primary payer for drug spending for people who were fully eligible for both programs. The federal share of those Medicaid savings would total \$50 billion through 2010, CBO estimates. In addition, Medicaid spending would rise by \$24 billion over 10 years because the new drug benefit would induce more low-income Medicare beneficiaries to enroll in Medicaid and would require Medicaid to continue paying the Part B premium (at a 100 percent federal matching rate) for certain people who under current law would become ineligible after December 31, 2002. Finally, Medicaid's administrative spending would rise by \$2 billion through 2010 because of the costs of administering subsidies and handling claims for new Medicaid enrollees.

In addition to direct spending for Medicare and Medicaid, the proposed drug benefit would necessitate additional administrative costs. If the benefit was implemented promptly, Medicare's administrative costs would amount to \$0.9 billion in 2001, CBO estimates, to hire additional staff, promulgate regulations, contract with pharmacy benefit managers, buy computer systems, notify beneficiaries, and prepare the Social Security Administration to deal with millions of beneficiaries and the additional premium offsets against their Social Security benefits. Those administrative costs would total about \$6 billion through 2010 if sufficient funds to establish and operate the benefit were appropriated.

TABLE 3. CBO'S ESTIMATE OF THE PRESIDENT'S *MID-SESSION REVIEW* PROPOSAL FOR A PRESCRIPTION DRUG BENEFIT IN MEDICARE (Outlays, by fiscal year, in billions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total, 2001- 2005	Total, 2001- 2010
Direct Spending												
Medicare												
Benefits	0	20.1	30.8	36.8	41.9	48.3	54.3	61.9	69.8	78.2	129.6	442.2
Part D premium receipts	0	-7.5	-10.4	-13.0	-14.4	-17.0	-18.6	-21.5	-23.9	-26.1	-45.2	-152.3
Subsidy to health plans for retirees	<u>0</u>	<u>0.4</u>	<u>0.5</u>	<u>0.6</u>	<u>0.7</u>	<u>0.8</u>	<u>0.9</u>	<u>1.0</u>	<u>1.1</u>	<u>1.2</u>	<u>2.1</u>	<u>7.1</u>
Subtotal	0	12.9	20.9	24.5	28.2	32.2	36.6	41.5	47.0	53.2	86.5	297.0
Medicaid (Federal) ^a												
Part D benefits and premiums	0	2.3	4.1	5.8	6.7	7.5	8.3	9.2	10.2	11.3	18.9	65.4
Change to current-law drug spending	0	-2.4	-3.5	-4.1	-4.7	-5.5	-6.2	-7.1	-8.0	-9.0	-14.7	-50.4
Part A/B benefits and premiums	0	0.5	1.3	2.3	2.7	2.9	3.1	3.4	3.6	3.9	6.8	23.7
Administrative costs	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>	<u>0.9</u>	<u>2.0</u>
Subtotal	0.1	0.6	2.2	4.1	4.9	5.1	5.4	5.7	6.1	6.4	11.9	40.7
Total	0.1	13.5	23.1	28.6	33.0	37.3	42.0	47.2	53.1	59.7	98.4	337.7
Spending Subject to Appropriations												
Medicare Administrative Costs	0.9	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	3.0	5.6
SOURCE: Congressional Budget Office based on the March 2000 baseline.												
a. Consistent with the estimates in the Administration's <i>Mid-Session Review</i> , this estimate assumes that subsidies for low-income beneficiaries will cover all of their costs each year in excess of the initial coverage limit but less than the annual out-of-pocket cap. If the President's proposal does not include coverage of those costs, CBO estimates that direct-spending outlays for the prescription drug benefit would be as follows:												
Medicare Outlays	0.0	12.8	20.7	24.1	27.7	31.7	36.1	40.8	46.3	52.5	85.3	292.7
Medicaid Outlays	<u>0.1</u>	<u>-0.1</u>	<u>0.9</u>	<u>2.8</u>	<u>3.3</u>	<u>3.7</u>	<u>3.8</u>	<u>4.2</u>	<u>4.4</u>	<u>4.6</u>	<u>7.0</u>	<u>27.7</u>
Total	0.1	12.7	21.6	26.9	31.0	35.4	39.9	45.0	50.8	57.0	92.3	320.4

Effect of the Prescription Drug Benefit on Other Federal Purchasers of Drugs

Medicare enrollees who spent enough on prescription drugs to trigger the catastrophic coverage would no longer have to be conscious of the price of drugs. As a result, demand would grow and prices would increase for some drugs used heavily by Medicare enrollees—particularly drugs with no close substitutes. CBO estimates that after 10 years, the average price of drugs consumed by Medicare beneficiaries would be 8 percent higher if the President's proposal was enacted.

Those higher prices would also affect spending for prescription drugs by other federal programs, such as Medicaid, the Federal Employees Health Benefits (FEHB) program, and programs of the Department of Defense (DoD), the Department of Veterans Affairs (VA), the Public Health Service (PHS), and the Coast Guard. CBO estimates that higher drug prices would add \$1 billion over the 2001-2010 period to direct spending for Medicaid and for annuitants covered by the FEHB program. CBO has not estimated the higher discretionary spending needed by federal agencies (for current workers covered by FEHB) as well as by DoD, VA, PHS, and the Coast Guard. The net impact for active and retired postal employees over that period would be negligible.

Effect on Revenues

Higher drug prices would also lead to a loss of federal revenues from income and payroll taxes by raising the cost of employer-sponsored health insurance and correspondingly reducing the amount of taxable compensation. CBO estimates that the decrease in revenues would amount to about \$1 billion through 2010. Social Security payroll taxes, which are off-budget, account for \$0.3 billion of that total.

CBO'S ESTIMATES OF THE COSTS OF CHANGES IN MEDICARE'S PAYMENT RATES

The Balanced Budget Act of 1997 holds the rate of increase in Medicare's payments for many services below the annual rate of inflation through 2002, with full adjustment for inflation resuming in 2003. In February, the President proposed to continue holding those payment increases below the rate of inflation through 2005. The *Mid-Session Review* proposals, however, dropped those provisions. They also eliminated provisions that would have reduced payments to compensate health care facilities for bad debt, that would have set up preferred provider organizations, and that would have modified the phase-in of improved methods of adjusting payments to Medicare+Choice organizations to reflect differences in financial risk based on the health status of their enrollees. Because those dropped provisions would have re-

duced Medicare spending by \$35 billion through 2010, spending under the policies of the *Mid-Session Review* would be higher by that amount.

In addition, the new proposals would increase Medicare's payment rates to hospitals, skilled nursing facilities, home health agencies, dialysis providers, and Medicare+Choice organizations in the following ways:

- Payment rates for hospital inpatient services would receive a full adjustment for inflation in 2001;
- A scheduled reduction in rates paid to teaching hospitals in 2001 would be canceled;
- A scheduled reduction in rates paid to hospitals that serve a significant number of low-income patients in 2001 would be canceled;
- Rates paid to hospitals in Puerto Rico would be increased;
- Rates for home health services would receive a full adjustment for inflation in 2001, and a 15 percent reduction in those rates would be postponed from 2002 to 2003;
- Rates for skilled nursing facilities would receive a full adjustment for inflation in 2001;
- Limits on payments to therapists would be postponed until 2002;
- Payment rates for dialysis services would be increased by 2.4 percent in 2001; and
- Medicare would pay for qualifying drug benefits offered by Medicare+Choice plans in 2001.

The proposal also earmarks about \$20 billion over 10 years for unspecified policies to increase payments to providers. The estimate assumes that those policies would, in fact, increase payments to providers by the earmarked amounts. CBO estimates that those provisions would increase Medicare spending by \$40 billion over the 2001-2010 period.

ESTIMATES OF CHANGES AND INTERACTIONS IN MEDICAID AND SCHIP

Other effects of the *Mid-Session Review* proposals would increase Medicaid and SCHIP spending by nearly \$4 billion over the 2001-2010 period, compared with CBO's estimate of the President's initial budget proposals. That increase reflects the deletion of the school lunch initiative (because it was enacted in P.L. 106-224), the addition of a proposal to change Medicaid's DSH allotments, and interactions with other policies. (The net effect of the school lunch initiative on Medicaid and SCHIP was negligible.)

Medicaid DSH

The Balanced Budget Act limits total Medicaid spending on DSH payments to fixed annual amounts that decline through 2002. The *Mid-Session Review* includes a proposal that would freeze each state's DSH allotment for 2001 at the 2000 level. That proposal would increase federal Medicaid spending by \$0.3 billion in 2001, CBO estimates.

Veterans in Nursing Homes

The new proposals would also permanently extend a provision that allows people who receive both a veteran's pension and nursing home care from Medicaid to keep \$90 of their pension each month instead of using it to defray nursing home costs. Under current law, that provision will expire at the end of 2002. CBO estimates that making the provision permanent would increase federal Medicaid spending by \$0.9 billion over the 2001-2005 period and \$2.5 billion through 2010.

Interactions with Medicare Provisions

Because Medicaid pays Medicare premiums and cost sharing for certain low-income beneficiaries enrolled in both programs, the proposed changes in Medicare's payment rates, which would affect premiums and cost sharing, would also have an impact on Medicaid spending. CBO estimates that those changes, in combination with the effect of higher prices for prescription drugs, would increase federal spending for Medicaid by \$1 billion over 10 years (compared with CBO's estimate of the President's initial budget proposals).

ESTIMATES OF OTHER PROVISIONS

In addition, the *Mid-Session Review* proposes to add \$475 million in mandatory funding to the Ricky Ray Hemophilia Relief Trust Fund in 2001 and to increase mandatory funding of diabetes research by a total of \$300 million from 2003 through 2007. Those provisions would boost direct spending by \$774 million over the 2001-2010 period, CBO estimates.

PROPOSED ACCOUNTING CHANGES AND INTRABUDGETARY TRANSACTIONS

The *Mid-Session Review* also contains two proposals regarding the budgetary treatment of Medicare's Hospital Insurance (HI) trust fund. One would transfer additional funds from the general fund of the Treasury to the HI trust fund; the other would place the receipts and outlays of that fund off-budget.

Transfers to the HI Trust Fund

The Administration proposes to assign an extra \$115 billion to the HI trust fund over the next 10 years: \$31 billion in 2001, \$14 billion in 2002, and \$70 billion between 2008 and 2010, over and above the income the fund would ordinarily receive. (The President's budget in February proposed larger transfers, totaling \$299 billion over the 2001-2010 period.) These transfers are described as "interest savings resulting from devoting the Medicare surplus to debt reduction"—although, under current law, the trust fund is already credited with interest earnings on the surplus it generates.

Since the transferred amounts would not be needed immediately to pay benefits, they would add to trust fund balances and make the HI program appear more "solvent." But the solvency of a trust fund is not a meaningful measure of the government's ability to meet its future obligations because the fund's balances are not assets of the government. Rather, the government's ability to meet its long-term obligations to Medicare beneficiaries will depend on its overall fiscal condition. Under current policies, as the population ages, payroll tax collections will become inadequate to finance Medicare, which will have to be funded through general revenues and, eventually, through proceeds from borrowing. That will be true whether or not trust fund balances exist on paper.

The only way that today's lawmakers can make a set of future obligations more affordable for future generations is to take actions that enhance long-term economic growth. By themselves, legislated changes in trust fund balances would

affect neither the size of the economy nor the resources available to the government in the future. There is some risk, however, that larger trust fund balances could obscure the long-term fiscal threat posed by the aging of the population and deter needed reforms by giving lawmakers and the public a false sense of security.

Taking the HI Trust Fund Off-Budget

The Administration also proposes to change the budget categorization of the HI trust fund so that its receipts and outlays would be considered off-budget, like those of the Social Security trust funds. That change is intended to ensure that HI surpluses over the next 10 years “are not used for other purposes and therefore will be used to reduce the debt,” according to the *Mid-Session Review*.

That proposed accounting change would have no effect on the economy. It would reduce on-budget surpluses while correspondingly increasing off-budget surpluses, but it would not, by itself, reduce the debt or change the government’s financial position.

However, if the Congress and the President agreed to avoid on-budget deficits in future years, that accounting change might make the surpluses generated by the HI program (and any additional transfers from the general fund) less vulnerable to proposals to increase spending or reduce taxes. If taking the HI trust fund off-budget thereby increased the likelihood of maintaining projected budget surpluses and paying down debt held by the public, it would enhance long-term economic growth.

ADDITIONAL TABLES

SUMMARY OF CBO'S ESTIMATE OF THE PRESIDENT'S *MID-SESSION REVIEW* PROPOSALS FOR MEDICARE
(By fiscal year, in billions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total, 2001-	Total, 2001-
												2005	2010
Gross Medicare Outlays (Direct Spending)													
Prescription Drug Benefit	0	0	20.4	31.3	37.4	42.6	49.1	55.2	62.9	70.9	79.4	131.7	449.3
Changes to Traditional Medicare	0	5.5	8.1	-1.0	2.4	2.7	2.9	2.6	2.2	1.8	1.6	17.8	28.9
Expanded Eligibility for Medicare	0	0	1.8	3.3	4.0	5.0	5.8	6.5	7.1	7.9	9.1	14.1	50.4
Medicare Competitive Defined Benefit	<u>0</u>	<u>0</u>	<u>0</u>	<u>-1.9</u>	<u>-4.2</u>	<u>-7.2</u>	<u>-11.0</u>	<u>-12.5</u>	<u>-14.2</u>	<u>-16.1</u>	<u>-18.1</u>	<u>-13.3</u>	<u>-85.2</u>
Total	0	5.5	30.3	31.8	39.7	43.0	46.9	51.7	58.0	64.7	71.9	150.3	443.5
Offsetting Receipts (Premiums)^a													
Prescription Drug Benefit	0	0	-7.5	-10.4	-13.0	-14.4	-17.0	-18.6	-21.5	-23.9	-26.1	-45.2	-152.3
Changes to Traditional Medicare	0	-1.4	-0.6	-0.2	-0.1	-0.1	-0.1	*	*	0.1	0.2	-2.4	-2.1
Expanded Eligibility for Medicare	0	0	-2.0	-3.2	-4.0	-5.0	-5.8	-6.4	-7.0	-7.9	-9.0	-14.2	-50.2
Medicare Competitive Defined Benefit	<u>0</u>	<u>0</u>	<u>0</u>	<u>1.6</u>	<u>3.5</u>	<u>6.1</u>	<u>9.3</u>	<u>10.6</u>	<u>11.9</u>	<u>3.5</u>	<u>15.2</u>	<u>11.2</u>	<u>71.5</u>
Total	0	-1.4	-10.1	-12.2	-13.5	-13.3	-13.5	-14.4	-16.5	-18.2	-19.9	-50.6	-133.1
Net Medicare Outlays (Direct Spending)													
Prescription Drug Benefit	0	0	12.9	20.9	24.5	28.2	32.2	36.6	41.5	47.0	53.2	86.5	297.0
Changes to Traditional Medicare	0	4.1	7.5	-1.1	2.3	2.6	2.8	2.6	2.2	2.0	1.7	15.5	26.8
Expanded Eligibility for Medicare	0	0	-0.2	*	*	*	0.1	0.1	0.1	0.1	*	-0.1	0.2
Medicare Competitive Defined Benefit	<u>0</u>	<u>0</u>	<u>0</u>	<u>-0.3</u>	<u>-0.7</u>	<u>-1.1</u>	<u>-1.8</u>	<u>-2.0</u>	<u>-2.3</u>	<u>-2.6</u>	<u>-2.9</u>	<u>-2.1</u>	<u>-13.7</u>
Total	0	4.1	20.2	19.6	26.2	29.7	33.3	37.3	41.5	46.5	52.1	99.7	310.4
Memorandum:													
Administrative Costs for Prescription Drug Benefit (Subject to appropriations)	0	0.9	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	3.0	5.6

SOURCE: Congressional Budget Office.

NOTE: * = between -\$50 million and \$50 million.

a. A reduction in offsetting receipts is equivalent to an increase in outlays.

DETAILS OF CBO'S ESTIMATE OF THE PRESIDENT'S *MID-SESSION REVIEW* PROPOSALS FOR MEDICARE:
TRADITIONAL BENEFITS FOR CURRENT-LAW ENROLLEES (By fiscal year, in billions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total, 2001- 2005	Total, 2001- 2010
Fee-for-Service Updates													
Prospective payment system update	0	0.6	0.6	0.6	0.7	0.9	1.1	1.1	1.1	1.2	1.2	3.3	9.1
Indirect medical education adjustment	0	0.1	*	0	0	0	0	0	0	0	0	0.1	0.1
Disproportionate share hospital adjustment	0	0.1	*	0	0	0	0	0	0	0	0	0.2	0.2
Puerto Rico prospective payment system	0	*	*	*	*	*	*	*	*	*	*	0.1	0.3
Delay in therapy caps from 2001 to 2002	0	1.0	0.2	0.1	0	0	0	0	0	0	0	1.3	1.3
Home health adjustment	0	0	1.0	0.3	0.1	0.2	0.2	0.2	0.2	0.3	0.3	1.6	2.7
Skilled nursing facility adjustment	0	*	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.4
Dialysis adjustment	0	0	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.5	1.4
Fee-for-Service Modernization													
Centers of excellence	0	0	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.9
Disease management and primary care case management	0	0	*	*	*	*	*	*	*	*	*	*	*
Competitive acquisition	0	0	0	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.8
Contracting reform	0	0	0	0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.8
Cost-Sharing Changes													
20 percent copayment for laboratory services	0	0	0	-0.5	-0.7	-0.7	-0.8	-0.8	-0.9	-1.0	-1.0	-1.9	-6.4
Index Part B deductible to consumer price index	0	0	0	*	-0.1	-0.2	-0.3	-0.3	-0.4	-0.5	-0.6	-0.3	-2.4
Eliminate cost sharing for preventive services	0	0	0	0.6	0.8	0.8	0.8	0.9	0.9	0.9	1.0	2.1	6.6
Other Fee-for-Service Provisions													
Reduce EPO payment rate	0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.5	-1.2
MSP reporting by insurers	0	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.5	-1.3
Restrictions on partial hospitalization	0	*	*	*	*	*	*	*	*	*	-0.1	-0.1	-0.3
Clarify partial hospitalization benefit	0	*	*	*	*	*	*	*	*	*	-0.1	-0.1	-0.3
Eliminate physicians' markup of outpatient drugs	0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-1.0	-2.1
Reduce payments for bad debt	0	0	0	0	0	0	0	0	0	0	0	0	0
Reduce payment rates for four lab tests by 30 percent	0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.5	-1.2
National payment limit for prosthetics and orthotics	0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.5	-1.3
Eliminate certain HPSA bonus payments	0	*	*	*	*	*	*	*	*	*	*	-0.2	-0.4
Cover 48 months of immunosuppressive drugs	0	*	*	*	*	*	*	*	*	*	*	*	0.2
Medicare+Choice													
Eliminate BBRA slowdown of phase-in of risk adjustment	0	0	0	0	0	0	0	0	0	0	0	0	0
Shift timing of payment from October to September 2002	0	0	3.9	-3.9	0	0	0	0	0	0	0	0	0
Interaction with changes in fee-for-service spending	0	0	0.3	0.1	*	*	*	*	*	-0.1	-0.2	0.3	0.1
Unspecified Policies													
Amount earmarked for increases in Part A spending ^a	0	1.2	1.3	1.4	1.4	1.5	1.5	1.4	1.3	1.2	1.1	6.7	13.0
Amount earmarked for increases in Part B spending ^a	<u>0</u>	<u>0.7</u>	<u>0.7</u>	<u>1.0</u>	<u>1.0</u>	<u>1.1</u>	<u>1.1</u>	<u>1.0</u>	<u>0.9</u>	<u>0.8</u>	<u>0.8</u>	<u>4.4</u>	<u>9.0</u>
Total (Gross mandatory Medicare outlays)	0	5.5	8.1	-1.0	2.4	2.7	2.9	2.6	2.2	1.8	1.6	17.8	28.9
Offsetting Receipts (Premiums)^b	0	-1.4	-0.6	-0.2	-0.1	-0.1	-0.1	*	*	0.1	0.2	-2.4	-2.1
Net Medicare Outlays	0	4.1	7.5	-1.1	2.3	2.6	2.8	2.6	2.2	2.0	1.7	15.5	26.8

SOURCE: Congressional Budget Office.

NOTE: * = between -\$50 million and \$50 million; EPO = erythropoietin; MSP = Medicare as secondary payer; HPSA = health professional shortage area; BBRA = Medicare, Medicaid and SCHIP Balanced Budget Refinement Act of 1999.

a. After specifying the amounts earmarked for increases in Part A and Part B spending, the Administration added proposals to increase payment rates for hospitals in Puerto Rico and to increase funding for Ricky Ray grants. The Administration stated that the earmarked amounts would be reduced to offset the cost of those proposals. CBO adjusted the amounts earmarked for Part A and Part B to reflect its estimates of the Puerto Rico provision and the Ricky Ray provision, respectively.

b. A reduction in offsetting receipts is equivalent to an increase in outlays.

CBO'S ESTIMATE OF THE PRESIDENT'S *MID-SESSION REVIEW* PROPOSALS FOR MEDICAID AND SCHIP
(Federal outlays by fiscal year, in billions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total, 2001- 2005	Total, 2001- 2010
Medicaid												
FamilyCare	0.2	-0.1	*	*	0.2	-7.3	-3.6	0.7	1.0	1.5	0.3	-7.4
Medicare Prescription Drug Benefit	0.1	0.6	2.2	4.1	4.9	5.1	5.4	5.7	6.1	6.5	11.9	40.7
Restore Eligibility to Certain Legal Immigrants	0.0	0.1	0.3	0.5	0.8	1.0	1.3	1.7	2.0	2.4	1.7	10.2
Other Medicaid Proposals and Interactions	<u>0.3</u>	<u>0.3</u>	<u>0.6</u>	<u>0.7</u>	<u>0.8</u>	<u>0.9</u>	<u>1.0</u>	<u>1.2</u>	<u>1.3</u>	<u>1.6</u>	<u>2.7</u>	<u>8.7</u>
Total	0.7	1.0	3.1	5.3	6.6	-0.3	4.2	9.3	10.4	11.9	16.6	52.1
SCHIP												
FamilyCare	-0.3	1.4	2.4	3.1	4.4	17.5	13.0	7.3	7.7	7.2	10.9	63.7
Other SCHIP Proposals	<u>0.0</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.3</u>	<u>0.6</u>
Total	-0.3	1.4	2.4	3.1	4.5	17.5	13.1	7.4	7.8	7.3	11.2	64.3
Total (Medicaid and SCHIP)												
Total	0.4	2.4	5.5	8.5	11.1	17.2	17.2	16.7	18.2	19.2	27.8	116.4

SOURCE: Congressional Budget Office.

NOTE: * = between -\$50 million and \$50 million.

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: **An Analysis of the President's Mid-Session Review
of the Budget for Fiscal Year 2001**

B. DATE Report Downloaded From the Internet: 03/12/02

**C. Report's Point of Contact: (Name, Organization, Address, Office
Symbol, & Ph #):** **Congressional Budget Office
Second and D Streets, SW
Washington, DC 20515**

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ **Preparation Date** 03/12/02

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